

Message Text

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SUBJECT: NEW SOVIET TAXATION DECREE

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SUMMARY: GERMAN EMBASSY HAS GIVEN US COPY OF REPORT ON
JUNE 2 DISCUSSION OF NEW SOVIET TAX DECREE BETWEEN SOV-
IET DEPUTY MINISTER OF FINANCE MASLENNIKOV AND GERMAN
EMBASSY E/C MINISTER STUELPNAGEL. REPORT, BEING POUCHED
TO EUR/SOV, CONCLUDES THAT MAIN SOVIET OBJECTIVE IS TO
AVOID OR MITIGATE TAXATION ON SOVIET NATIONALS ABROAD.
MASLENNIKOV IS CITED AS SAYING THAT INCOME FROM BILATERAL
TRADE WILL BE EXEMPT FROM TAXATION UNLESS ARRANGED
TCFOUGH A REPRESENTATIONAL OFFICE IN THE USSR. REPORT
CONCLUDES THAT GERMAN FIRMS IN USSR MAY SUDDENLY DEVELOP
AN INTEREST IN THE PROMPT NEG OTIATION OF A TAX
CONVENTION.

1. GERMAN EMBASSY SUPPLIED US JUNE 7 WITH REPORT SENT SAM
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DATE BY EMBASSY TO MFA BONN, CONCERNING MASLENNIKOV/
STUELPNAGEL MEETING OF JUNE 2 ON NEW SOVIET TAX
DECREE. TEXT (IN GERMAN) BEING POUCHED EUR/SOV.

2. HIGHLIGHTS OF GERMAN REPORT ARE AS FOLLOWS:
- MASLENNIKOV SAID THAT SOVIET DECISION TO IMPOSE TAXATI
ON FOREIGN PERSONS AND FIRMS IN USSR STEMS FROM DESIRE T

HAVE SOVIET COUNTERPARTS ABROAD TREATED IN THE SAME WAY.

- GERMANS CONCLUDED (WE ARE NOT SURE WHY) THAT MOST IMPORTANT PRINCIPLE OF NEW REGULATION IS THE EQUAL LIMITED OFFICIAL USE

TREATMENT OF FOREIGN AND SOVIET NATURAL PERSONS (SOVIETS PAY INCOME TAX OF 8.20 ON FIRST 100 RUBLES OF INCOME;

13 ABOVE THAT FIGURE; BUT SELF-EMPLOYED PAY UP TO 69).

- FOREIGN NATURAL PERSONS WILL BE TAXED ON SAME BASIS AS SOVIET CITIZENS IN THIRD STATES; IF THERE ARE NO COMPARABLE SOVIETS IN THEIR OWN COUNTRY, THEY WILL BE TAXED AT SAME RATE AS SOVIET CITIZENS IN USSR.

- INFORMED THAT GERMAN INCOME TAX LEGISLATION IS "DIFFERENTIATED," MASLENNIKOV REPLIED THAT ONLY THE "GENERAL TAX PROVISIONS" WOULD BE TAKEN AS A BASIS FOR TAXATION OF GERMANS IN USSR.

- MASLENNIKOV SAID THAT 40 TAX RATE OF JURIDICAL PERSONS WILL ONLY BE USED IN CASES WHERE THERE ARE NO SOVIET FIRMS IN HOME STATE OF THE JURIDICAL PERSON IN QUESTION.

OTHERWISE, ITS TAX RATE ON SOVIET CITIZENS WILL APPLY.

- MASLENNIKOV GAVE STUELPNAGEL TO UNDERSTAND THAT ONLY TRADE PASSING THROUGH A REPRESENTATIONAL OFFICE WOULD BE SUBJECT TO TAXATION, A FACT WHICH THE GERMANS THOUGHT MIGHT MAKE THEIR FIRMS CONSIDER "DISACCREDITATION" OF SUCH OFFICES.

- INHERITANCES WILL BE TAXED IN AN ANALOGOUS WAY TO SUCH LIMITED OFFICIAL USE

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TAXATION ABROAD.

- FOREIGN ON-SITE CONSTRUCTION WORKERS IN USSR WILL BE TAXED ON RUBLE EARNINGS ON BASIS OF TAX LAWS IN THEIR OWN COUNTRIES.

- THE GERMANS CONCLUDE THAT THE NEW SOVIET TAX SYSTEM HARDLY APPEARS ACHIEVABLE BECAUSE OF ITS ASSOCIATION WITH FOREIGN TAX REGULATIONS. HOWEVER, LOCAL GERMAN FIRMS ARE FULL OF UNCERTAINTY ABOUT HOW IT WOULD BE APPLIED, PARTICULARLY AS TO THE BASIS FOR TAX ASSESSMENT.

- MASLENNIKOV EMPHASIZED THAT A SATISFACTORY SOLUTION TO THE PROBLEM COULD BE ACHIEVED THROUGH CONCLUSION OF A TREATY AGAINST DOUBLE TAXATION.

- THE "NEW SITUATION" BROUGHT ABOUT BY THE DECREE HAS CHANGED THE PREVIOUS RESISTANCE BY GERMAN INDUSTRY AGAINST A TREATY ON DOUBLE TAXATION, AND THERE COULD NOW BE A GERMAN INTEREST IN THE EARLIEST POSSIBLE CONCLUSION OF SUCH AN AGREEMENT.

3. COMMENT: MASLENNIKOV'S STATEMENTS, AS REPORTED BY THE GERMAN EMBASSY, DO LITTLE TO DIMINISH THE PRESENT CONFUSION ABOUT THE NEW DECREE. FULL CLARITY IS STILL MISSING AS TO WHO IS SUBJECT TO THE TAX, FOR WHAT INCOME

AND AT WHAT RATE OF TAXATION. MATLOCK

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